

BARAGA VILLAGE/KEWEENAW BAY RESERVATION
WASTE WATER AUTHORITY

AUDITED FINANCIAL STATEMENTS

February 29, 2008

TABLE OF CONTENTS

	Page
Independent Auditors' Report	3
Financial Statements:	
Statements of Net Assets	4
Statements of Revenues, Expenses, and Changes In Net Assets.....	5
Statements of Cash Flows	6
Notes to Financial Statements	7
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	12
Schedule of Findings and Responses.....	14
Auditors' Communication of Significant Matters with Those Charged with Governance.....	15
Management Letter.....	17

JOSEPH M. DAAVETILA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

417 SHELDEN AVENUE, P.O. BOX 488
HOUGHTON, MICHIGAN 49931

August 22, 2008

Baraga Village/Keweenaw Bay Reservation
Waste Water Authority
Baraga, Michigan 49908

Independent Auditor's Report

We have audited the accompanying financial statements of the Baraga Village/Keweenaw Bay Reservation Waste Water Authority as of and for the years ended February 29, 2008 and February 28, 2007. These financial statements are the responsibility of the Baraga Village/Keweenaw Bay Reservation Waste Water Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Baraga Village/ Keweenaw Bay Reservation Waste Water Authority as of February 29, 2008 and February 28, 2007 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Authority has not presented management's discussion and analysis which is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 22, 2008, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Joseph M Daavetila, PC

Certified Public Accountant

BARAGA VILLAGE/KEWEENAW BAY RESERVATION WASTE WATER AUTHORITY

STATEMENTS OF NET ASSETS

	<u>February 29,</u> <u>2008</u>	<u>February 28,</u> <u>2007</u>
<u>CURRENT ASSETS</u>		
Cash	\$ 22,684	\$ 24,107
Accounts receivable	11,254	8,297
Grant receivable	357	-
Due from other governmental units	<u>21,338</u>	<u>-</u>
TOTAL CURRENT ASSETS	\$ 55,633	\$ 32,404
<u>RESTRICTED ASSETS</u>		
Cash	<u>\$ 124,240</u>	<u>\$ 68,504</u>
<u>NONCURRENT ASSETS</u>		
Capital assets:		
Wastewater distribution system	\$ 9,610,509	\$ 6,285,420
Less accumulated depreciation	(3,448,470)	(3,097,444)
Construction in progress	<u>406,303</u>	<u>3,325,089</u>
TOTAL NONCURRENT ASSETS	\$ 6,568,342	\$ 6,513,065
TOTAL ASSETS	<u>\$ 6,748,215</u>	<u>\$ 6,613,973</u>
<u>CURRENT LIABILITIES</u>		
Accounts payable and payroll taxes	\$ 639	\$ 987
Due to other governmental units	8,845	42,133
Current maturities on long-term debt	<u>17,839</u>	<u>16,893</u>
TOTAL CURRENT LIABILITIES	\$ 27,323	\$ 60,013
<u>NONCURRENT LIABILITIES</u>		
Due to other governmental units	<u>32,007</u>	<u>49,846</u>
TOTAL LIABILITIES	\$ 59,330	\$ 109,859
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt:		
Village of Baraga	\$ 5,584,270	\$ 5,465,972
Keweenaw Bay Indian Community	468,069	496,628
Unrestricted:		
Village of Baraga	318,273	270,757
Keweenaw Bay Indian Community	<u>318,273</u>	<u>270,757</u>
TOTAL NET ASSETS	<u>\$ 6,688,885</u>	<u>\$ 6,504,114</u>

The accompanying notes to financial statements are an integral part of this statement.

BARAGA VILLAGE/KEWEENAW BAY RESERVATION WASTE WATER AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	<u>Year Ended</u>	
	<u>February 29, 2008</u>	<u>February 28, 2007</u>
<u>OPERATING REVENUES</u>		
Charges for services	\$ 434,477	\$ 401,523
Other revenue	<u>18,880</u>	<u>28,123</u>
TOTAL OPERATING REVENUES	\$ <u>453,357</u>	\$ <u>429,646</u>
<u>OPERATING EXPENSES</u>		
Salaries	\$ 6,600	\$ 5,755
Payroll taxes	585	436
Office supplies	82	-
Operating supplies	5,616	2,217
Contracted services - Village of Baraga	108,612	139,230
Contracted services - other	3,374	2,741
Repairs and maintenance	4,692	-
Insurance	3,883	4,260
Utilities	34,681	26,891
Provision for depreciation	351,026	184,810
Miscellaneous	924	146
Equipment rental	<u>6,502</u>	<u>5,390</u>
TOTAL OPERATING EXPENSES	\$ <u>526,577</u>	\$ <u>371,876</u>
NET INCOME (LOSS) FROM OPERATIONS	(\$ <u>73,220</u>)	\$ <u>57,770</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Interest income	\$ 1,336	\$ 500
Interest expense	(<u>3,248</u>)	(<u>4,584</u>)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(\$ <u>1,912</u>)	(\$ <u>4,084</u>)
<u>OTHER FINANCING SOURCES (USES)</u>		
Transfers (to) from other governmental units	(\$ 146,400)	(\$ 120,000)
Capital contributions	<u>406,303</u>	<u>430,082</u>
TOTAL OTHER FINANCING SOURCES (USES)	\$ <u>259,903</u>	\$ <u>310,082</u>
CHANGE IN NET ASSETS	\$ 184,771	\$ 363,768
Total net assets, beginning of year	<u>6,504,114</u>	<u>6,140,346</u>
TOTAL NET ASSETS, END OF YEAR	<u>\$ 6,688,885</u>	<u>\$ 6,504,114</u>

The accompanying notes to financial statements are an integral part of this statement.

BARAGA VILLAGE/KEWEENAW BAY RESERVATION WASTE WATER AUTHORITY

STATEMENTS OF CASH FLOWS

	<u>Year Ended</u>	
	<u>February 29,</u> <u>2008</u>	<u>February 28,</u> <u>2007</u>
<u>CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES</u>		
Receipts from customers	\$ 450,043	\$ 434,442
Payments to suppliers	(223,340)	(171,752)
Payments to employees	(7,185)	(6,203)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 219,518	\$ 256,487
<u>CASH FLOWS PROVIDED BY (USED IN) CAPITAL AND</u> <u>RELATED FINANCING ACTIVITIES</u>		
Restricted assets	(\$ 55,736)	(\$ 54,900)
Transfers from (to) other governmental units	(146,400)	120,000
Payments on installment obligation	(16,893)	(61,235)
Interest income	1,336	500
Interest paid	(3,248)	(4,584)
NET CASH FLOWS PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	(\$ 220,941)	(\$ 240,219)
NET INCREASE (DECREASE) IN CASH	\$ 1,423	\$ 16,268
Cash, beginning of year	<u>24,107</u>	<u>7,839</u>
Cash, end of year	<u>\$ 22,684</u>	<u>\$ 24,107</u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO</u> <u>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</u>		
Operating income (loss)	(\$ 73,220)	\$ 57,770
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	351,026	184,810
Changes in assets and liabilities:		
Accounts receivable	(3,314)	4,796
Accounts payable and payroll taxes	(348)	(1,508)
Due to other governmental units	(54,626)	10,619
NET CASH PROVIDED BY (USED) IN OPERATING ACTIVITIES	<u>\$ 219,518</u>	<u>\$ 256,487</u>

The accompanying notes to financial statements
are an integral part of this statement.

BARAGA VILLAGE/KEWEENAW BAY RESERVATION WASTE WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS
February 29, 2008 and February 28, 2007

NOTE A -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

The Village of Baraga (Village) and the Keweenaw Bay Indian Community (Community) entered into an agreement on September 27, 1995, for the purpose of creating the Baraga Village/Keweenaw Bay Reservation Waste Water Authority Board. The Authority shall own, operate, and maintain a joint waste water treatment facility and associated system components. The Community and the Village shall be equal partners in and shall jointly operate the Waste Water System. The Authority shall employ the Village of Baraga as System Operator to operate and maintain the system and shall pay the Village for such services. This agreement expires January 1, 2100, unless extended by agreement of both parties.

The Authority Board consists of five trustees. Two trustees are appointed by the Baraga Village Council, two trustees are appointed by the Keweenaw Bay Tribal Council, and one trustee appointed by unanimous decision of the four aforementioned trustees. Each trustee serves a three year term. The Authority provides waste water treatment services to the Village and the Community. The accompanying financial statements include only the Baraga Village/ Keweenaw Bay Reservation Waste Water Authority and do not include any other governmental agencies or departments.

The Baraga Village/Keweenaw Bay Reservation Waste Water Authority began operations September 1, 1996.

REPORTING ENTITY

In accordance with the provisions of the Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity," the financial statements of the Baraga Village/Keweenaw Bay Reservation Waste Water Authority contain all of the financial activity of the Authority's funds. The Authority is not considered a component unit of either the Village or the Community. Elements considered in determining that the Authority is not a component unit of the Village or the Community are as follows:

1. The Village or the Community are not responsible for the designation of the Authority's management.
2. The Village or the Community do not approve the Authority's annual budget or budget amendments.
3. The Village or the Community do not significantly influence operations.
4. The Village or the Community each appoint two of the five members to the Authority's Board of Trustees.
5. The Village or the Community do not have significant fiscal management responsibilities.
6. The Village or the Community provide no direct on-going financial support to the Waste Water Authority.
7. The Village or the Community do not hold title to the physical assets of the Authority.

Financial transactions between the Village or the Community and the Authority, reported in the accompanying financial statements, constitute contractual agreements for providing services. The Village and the Community should account for their investment in the Authority, using the Equity method, as required by generally accepted accounting principles.

BARAGA VILLAGE/KEWEENAW BAY RESERVATION WASTE WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT POLICIES (CONTINUED)

BASIS OF ACCOUNTING

Basis of accounting refers to when revenue and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied. The accounting policies of the Baraga Village/Keweenaw Bay Reservation Waste Water Authority conform to generally accepted accounting principles. The Authority utilized the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

ASSETS AND LIABILITIES

1. Cash - Cash is considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.
2. Receivables - All receivables are considered to be fully collectible.
3. Capital assets - Capital assets include property, plant and equipment. Capital assets are recorded at historical cost on the Statement of Net Assets along with accumulated depreciation.

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

Sewer system and improvements	20-35 years
Equipment	5-10 years

USE OF ESTIMATES IN PREPARATION OF FINANCIAL STATEMENTS

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

BUDGETARY DATA

The procedures in establishing the budget are as follows:

1. The Chairman prepares and submits to the Board a proposed operating budget prior to commencement of the fiscal year. The operating budget includes proposed expenditures and means of financing them and is stated on a basis consistent with generally accepted accounting principles.
2. The Board formally adopts the finalized operating budget at a regular public meeting held prior to the commencement of the fiscal year.
3. Board administration is authorized to transfer budgeted amounts between line items within departmental budgets with post transfer Board approval.
4. Formal budgetary integration is employed as a management control device during the year.

NOTE B - CASH AND INVESTMENTS

Deposits are carried at cost. Deposits are in one financial institution in the name of the Baraga Village/Keweenaw Bay Reservation Waste Water Authority.

BARAGA VILLAGE/KEWEENAW BAY RESERVATION WASTE WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE B - CASH AND INVESTMENTS (CONTINUED)

Michigan Compiled Laws, Section 129.91, authorizes the Local Unit to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The investment policy required by Act 196 PA 1997 has been adopted by the Authority. The Authority's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board (GASB) Statement No. 3 risk disclosure for deposits at year end are as follows:

	<u>Carrying Amounts</u>
Insured (FDIC)	\$146,924
Uninsured and Uncollateralized	<u>-</u>
Total Deposits	<u><u>\$146,924</u></u>
	<u>Bank Balances</u>
Insured (FDIC)	\$147,017
Uninsured and Uncollateralized	<u>-</u>
Total Deposits	<u><u>\$147,017</u></u>

The Authority's deposits are categorized below in accordance with GASB Standards No. 3 to give an indication of the level of credit risk assumed by the Authority at year-end. These categories do not disclose market risk, nor do they measure the risk that an insurer of securities would be unable to fulfill its obligations. The categories are described as follows:

- Category 1 - Insured or collateralized with securities held by the Authority or its agent in the Authority's name.
- Category 2 - Collateralized with securities held by the pledge of financial institution's trust department or agent in Authority's name.
- Category 3 - Uncollateralized, including any bank balance that is collateralized with securities held by the pledge of financial institutions, or its Trust department or agent but not in the Authority's name.

At February 29, 2008 the Authority's balances were as follows:

	(1)	(2)	(3)	Bank Balance	Carrying Amount
Local and area banks	<u>\$147,017</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$147,017</u>	<u>\$146,924</u>

The authority had no significant type of investment during the year not included in the above schedule.

For all deposits shown, the market value at the balance sheet date is substantially the same as the carrying amount. The difference between the bank balance and carrying amount is due to outstanding checks and/or deposits in transit.

BARAGA VILLAGE/KEWEENAW BAY RESERVATION WASTE WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE C - CAPITAL ASSETS

Capital asset activity for the year ended February 29, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets not being depreciated -				
Construction in progress	<u>\$3,325,089</u>	<u>\$ 406,303</u>	<u>\$3,325,089</u>	<u>\$ 406,303</u>
Capital assets being depreciated:				
Property and equipment	\$6,285,420	\$3,325,089	\$ -	\$9,610,509
Less accumulated depreciation	<u>3,097,444</u>	<u>351,026</u>	<u>-</u>	<u>3,448,470</u>
Total capital assets being depreciated, net of depreciation	<u>\$3,187,976</u>	<u>\$2,974,063</u>	<u>\$ -</u>	<u>\$6,162,039</u>
TOTAL CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION	<u>\$6,513,065</u>	<u>\$3,380,366</u>	<u>\$3,325,089</u>	<u>\$6,568,342</u>

NOTE D - DUE TO OTHER GOVERNMENTAL UNITS

As of February 29, 2008, the Village of Baraga owes the Authority \$21,338 for excess reimbursements for expenses incurred and capital assets purchased by the Village in its role as System Operator.

NOTE E - LONG-TERM DEBT

A loan was received from the Village of Baraga on July 10, 2003 in the amount of \$116,840. Payments of \$1,678.33 are required monthly, including annual interest at 5.50%. Maturity date is September 2010. Scheduled payments of principal and interest are listed below:

<u>Fiscal Year Ending February</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2009	\$ 2,301	\$ 17,839	\$ 20,140
2010	1,288	18,852	20,140
2011	<u>271</u>	<u>13,155</u>	<u>13,426</u>
Totals	<u>\$ 3,860</u>	<u>\$ 49,846</u>	<u>\$ 53,706</u>

Long-term debt liability activity for the year ended February 29, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Loan	<u>\$ 66,739</u>	<u>\$ -</u>	<u>\$ 16,893</u>	<u>\$ 49,846</u>

BARAGA VILLAGE/KEWEENAW BAY RESERVATION WASTE WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE E - LONG-TERM DEBT (CONTINUED)

On September 1, 1996, the Village of Baraga transferred \$1,373,000 of sewer disposal system revenue bonds to the Baraga Village/Keweenaw Bay Reservation Waste Water Authority which in turn paid off these bonds with the contribution from the Keweenaw Bay Indian Community.

NOTE F - CONTRIBUTED CAPITAL

	<u>Village</u>	<u>KBIC</u>	<u>Total</u>
Capital contributed to the Authority March 1, 2007	\$5,465,972	\$496,628	\$5,962,600
Additional property, plant and equipment contributed to the Authority	406,303	-	406,303
Deduct - depreciation on property, plant and equipment contributed to the Authority	(288,005)	(28,559)	(316,564)
TOTAL CONTRIBUTED CAPITAL AT FEBRUARY 29, 2008	<u>\$5,584,270</u>	<u>\$468,069</u>	<u>\$6,052,339</u>

NOTE G - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority maintains insurance coverage through the Michigan Municipal League which covers each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Authority.

NOTE H - WASTEWATER IMPROVEMENT PROJECT

During the year ended February 29, 2008, a wastewater improvement project costing approximately \$3.3 million was completed. The project includes expansion of the existing lagoon system, upgrading of the main lift station, and the replacement of 9,000 linear feet of wastewater line. The project is being funded through the Village of Baraga. The Village issued \$2,890,000 in revenue bonds, and received a Michigan Economic Development Corporation Community Development Block grant for \$150,000. The Village also received a grant of \$279,500 from Indian Health Services.

The terms of the revenue bonds require that various depository accounts be established and maintained. The bond and interest redemption account should have a balance of \$72,042, as of February 29, 2008. This account has not yet been established. The bond reserve account should have a balance of \$104,100, as of February 29, 2008. The balance in this account is \$78,563. The terms of the revenue bonds also require that no less than \$20,000 each year be deposited into the replacement account for the purpose of making repairs and replacements to the system. The Authority is currently in compliance with this requirement and this account has a balance of \$45,676, as of February 29, 2008.

JOSEPH M. DAAVETILA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

417 SHELDEN AVENUE, P.O. BOX 488
HOUGHTON, MICHIGAN 49931

August 22, 2008

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Baraga Village/Keweenaw Bay Reservation
Waste Water Authority
Baraga, MI 49908

We have audited the financial statements of Baraga Village/Keweenaw Bay Reservation Waste Water Authority (the Authority) as of and for the years then ended February 29, 2008 and February 28, 2007, and have issued our report thereon dated August 22, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards," issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Item 2008-1 to be significant deficiencies in internal control over financial reporting.

The Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's response and, accordingly, we express no opinion on it.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as Item 2008-1.

We noted certain matters that we reported to management of the Authority in a separate letter dated August 22, 2008.

This report is intended for the information and use of the Board of Trustees, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Joseph M. Daavettila, PC". The signature is written in a cursive, flowing style.

Certified Public Accountant

BARAGA VILLAGE/KEWEENAW BAY RESERVATION WASTE WATER AUTHORITY

SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended February 29, 2008

2008-1 PREPARATION OF FINANCIAL STATEMENTS IN ACCORDANCE WITH GAAP

Criteria

All entities are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of management. The preparation of financial statements in accordance with GAAP requires internal controls over both recording, processing, and summarizing accounting data (i.e., maintaining, internal control books and records), and reporting government-wide financial statements, including related footnotes.

Conditions

As is the case with many small entities, the Authority has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the Authority's ability to prepare financial statements in accordance with GAAP is based, in part, on its external auditors, who cannot by definition be considered a part of the internal controls.

Cause

Due to the lack of knowledge, expertise and education relative to preparing GAAP financial statements possessed by the financial department, management has made the decision that it is in their best interest to outsource the preparation of its annual financial statements to the auditors rather than incur the time and expense of obtaining the necessary training and expertise required for the Authority to perform this task.

Effect

As a result of this condition the Authority lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible Officials

The Authority has evaluated the benefits of establishing internal control over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Authority to outsource this task to its internal auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

JOSEPH M. DAAVETILA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

417 SHELDEN AVENUE, P.O. BOX 488
HOUGHTON, MICHIGAN 49931

August 22, 2008

Board of Trustees
Baraga Village/Keweenaw Bay Reservation
Waste Water Authority
Baraga, MI 49908

We have audited the financial statements of the Baraga Village/Keweenaw Bay Reservation Waste Water Authority (the Authority), for the years ended February 29, 2008 and February 28, 2007, and have issued our report thereon dated August 22, 2008. Professional standards require that we provide you with the following information related to our audit.

Significant Auditing Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended February 29, 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transactions occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was capital asset depreciation.

Management's estimate of the capital asset depreciation is based on the estimated useful lives of the Authority's capital assets. We evaluated the key factors and assumptions used to develop the capital asset depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 22, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Trustees and management of the Authority and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Joseph M. Daavethla, PC". The signature is written in a cursive, flowing style.

Certified Public Accountant

JOSEPH M. DAAVETILA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

417 SHELDEN AVENUE, P.O. BOX 488
HOUGHTON, MICHIGAN 49931

August 22, 2008

Board of Trustees
Baraga Village/Keweenaw Bay Reservation
Waste Water Authority
Baraga, MI 49908

MANAGEMENT LETTER

In connection with our audit of the financial statements of the Baraga Village/Keweenaw Bay Reservation Waste Water Authority (the Authority) for the year ended February 29, 2008, the following comment and recommendation concerning accounting procedures and controls in effect for the Authority are presented for your consideration.

Bonds issued by the Village of Baraga to finance a waste water improvement project have terms which require that certain depository accounts be established and maintained as is outlined in Note H to the financial statements. One of these accounts has not yet been established and another has not been completely funded. We recommend that all accounts which are required by the bond terms be established and funded as soon as possible.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the February 29, 2008 financial statements, and this report does not affect our report on financial statements dated August 22, 2008.

This report is intended solely for the use of management and should not be used for any other purpose. The comments contained herein are submitted as constructive suggestions to assist the Authority in strengthening controls and procedures, and are not intended to reflect upon the honesty or the integrity of any employee.

We would be happy to discuss any of the comments in this report, and would like to thank the officials and employees of the Authority for the courtesy and cooperation shown us during our audit.

Joseph M Daavetila, PC

Certified Public Accountant